The Effect of Audit Quality on Information Asymmetry: Empirical Evidence from Iran

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Abstract

This study examines whether audit quality affects level of information asymmetry of publicly listed firms within the Iranian capital market. Using three different proxies of audit quality including auditor size, auditor industry specialization and auditor tenure and based on a sample of 76 non-financial Iranian listed firms from 2008 to 2012, the results show that auditor size is negatively related to information asymmetry. In addition, we find that the appointment of industry specialist auditors is associated with lower information asymmetry. We find, however, no relationship between auditor tenure and information asymmetry. Overall, our findings support the contention that audit quality plays a significant role in mitigating the firm’s information asymmetry.

Keywords: Auditor size, Auditor industry specialization, Auditor tenure, information asymmetry.
References


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